

LAUREL COUNTY SCHOOL DISTRICT

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2009

LAUREL COUNTY SCHOOL DISTRICT

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LAUREL COUNTY SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Laurel County School District
London, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Laurel County School District as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Laurel County School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the provisions of the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract – General Audit Requirements*, *Appendix II of the Independent Auditor's Contract – State Audit Requirements*, and *Appendix III of the Independent Auditor's Contract – Electronic Submission*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Laurel County School District as of June 30, 2009, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2009 on our consideration of Laurel County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Laurel County School District's basic financial statements. The additional information shown on pages 37 through 44 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards on pages 45 through 48 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Christian, Sturgeon & Associates, PSC

London, Kentucky
October 26, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
LAUREL COUNTY SCHOOL DISTRICT - LONDON, KY
YEAR ENDED JUNE 30, 2009

As management of the Laurel County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

This Management Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued June 1999; GASB Statement No. 37, *Basic Financial Statement - and Management Discussion and Analysis - for State and Local Governments: Omnibus*, an amendment to GASB Statements No. 21 and No. 34, issued in 2001; and in GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, issued in 2001. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

The District's solid financial position is attributed to sound fiscal management and continuing review of all policies in search of ways to increase revenues and/or reduce costs. Our current financial position is strong and our budget for FY 2010 is solid and supports the educational needs of the students the District serves while at the same time is capable of responding to the fluid nature of changes in the current economic landscape.

Bonds are issued as the District renovates and builds facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The District's net total bonded debt decreased by \$2,870,000 during the current fiscal year.

In fiscal year 2009 the District refunded one issue at a lower interest rate resulting in \$310,265 savings over the remaining life of the bonds.

Total Fund revenue was \$84.4 million which primarily consisted of the state program (SEEK), property, utilities, and motor vehicle taxes. Excluding construction cost of \$10.3 million financed by bonds, there were \$85.4 million in Fund expenditures.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) district-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

District-wide financial statements. The district-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
LAUREL COUNTY SCHOOL DISTRICT - LONDON, KY
YEAR ENDED JUNE 30, 2009

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenditures are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The district-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

The district-wide financial statements can be found on pages 9-10 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories:

Governmental Funds: Most of the District's basic activities are reported in these funds, which focus on how money flows into and out of these funds and the balances left at year-end that is available for spending. The funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The statements for these funds provide a short-term view of the District's general operations and the basic services they provide to help determine where financial resources may be found to finance the District's programs.

Proprietary Funds: These are business-type activities where the District charges students or parents for the services it provides. These funds are reported using the full accrual accounting method in the same way that all activities are reported in the Statement of Net Assets and Statement of Activities. School food services is the major activity considered as business-type activities in the District.

Fiduciary funds: These are trust funds used to account for resources held for the benefit of parties outside the District. These funds are not reflected in the District-wide financial statements because the resources of these funds are not available to support the District's own activities or programs. The basis of accounting for fiduciary funds is similar to that of proprietary funds.

The basic governmental fund financial statements can be found on pages 11-19 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 20-36 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
LAUREL COUNTY SCHOOL DISTRICT - LONDON, KY
YEAR ENDED JUNE 30, 2009

DISTRICT-WIDE FINANCIAL ANALYSIS

Net assets are an indicator of a district's financial position. Laurel County School District assets exceeded liabilities by \$56,669,192 as of June 30, 2009, an increase of \$1,946,320 from the previous year.

Net Asset Comparison Statement

	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>Change</u>
Current assets	\$ 14,021,884	\$ 20,728,145	\$ (6,706,261)
Long-term assets	3,905,865	4,512,784	(606,919)
Capital assets, net of depreciation	<u>113,865,452</u>	<u>107,798,225</u>	<u>6,067,227</u>
Total Assets	<u>131,793,201</u>	<u>133,039,154</u>	<u>(1,245,953)</u>
Current liabilities	8,082,057	8,162,458	(80,401)
Long-term liabilities	<u>67,041,952</u>	<u>70,153,824</u>	<u>(3,111,872)</u>
Total Liabilities	<u>75,124,009</u>	<u>78,316,282</u>	<u>(3,192,273)</u>
Net Assets			
Investment in capital assets, net of debt	48,169,528	39,455,423	8,714,105
Restricted	3,164,821	10,640,069	(7,475,248)
Unreserved fund balance	<u>5,334,843</u>	<u>4,627,380</u>	<u>707,463</u>
Total Net Assets	<u>\$ 56,669,192</u>	<u>\$ 54,722,872</u>	<u>\$ 1,946,320</u>

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
LAUREL COUNTY SCHOOL DISTRICT - LONDON, KY
YEAR ENDED JUNE 30, 2009

Capital Asset Activity

	<u>June 30, 2008</u>			<u>June 30, 2009</u>
	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u>
Governmental Activities				
Land and land improvements	\$ 7,099,568	\$ 109,500	\$ 51,720	\$ 7,157,348
Buildings	89,138,030	23,979,115	355,222	112,761,923
Technology	6,799,200	487,020	422,106	6,864,114
Vehicles	7,436,516	638,225	302,978	7,771,763
General equipment	1,748,867	60,612	88,885	1,720,594
Construction in progress	19,546,521	3,765,294	19,546,521	3,765,294
Total historical cost	131,768,702	29,039,766	20,767,432	140,041,036
Less accumulated depreciation	31,921,401	4,756,971	994,987	35,683,385
Governmental capital assets, net	<u>\$ 99,847,301</u>	<u>\$ 24,282,795</u>	<u>\$ 19,772,445</u>	<u>\$ 104,357,651</u>

Business-type Activities

Buildings	\$ 9,178,452	\$ 1,623,983	\$ 26,300	\$ 10,776,135
Technology	83,515	-	5,088	78,427
General equipment	2,193,262	329,417	13,072	2,509,607
Total historical cost	11,455,229	1,953,400	44,460	13,364,169
Less accumulated depreciation	3,504,305	389,267	37,204	3,856,368
Business-type capital assets, net	<u>\$ 7,950,924</u>	<u>\$ 1,564,133</u>	<u>\$ 7,256</u>	<u>\$ 9,507,801</u>

Comments on General Fund Budget Comparisons

- The District's total revenues for the fiscal year ended June 30, 2009, net of inter-fund transfers, were \$61,291,128.
- Total General Fund budgeted revenue compared to actual revenue varied from line item to line item with the ending actual revenue being \$508,070 less than budget or approximately .8% less. The major contributor to this decrease was less on-behalf employee benefits actually paid by the state than budgeted.
- Total general fund budgeted expenditures net of budgeted contingency and inter-fund transfers compared to actual expenditures were \$2,889,209 less than budget or approximately 4.6% less. The savings were a result of less on-behalf employee benefits charged by the state, decrease in fuel prices, fewer technology purchases and less building maintenance cost than anticipated.

The Budget Verses Actual comparison statement can be found on page 15 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
LAUREL COUNTY SCHOOL DISTRICT - LONDON, KY
YEAR ENDED JUNE 30, 2009

The following table presents a summary of revenues and expenditures reported on the Annual Financial Report for the fiscal year ended June 30, 2009, excluding beginning balance and inter-fund transfers, compared to the fiscal year ended June 30, 2008.

REVENUES

	<u>FY 2009</u>	<u>FY 2008</u>	<u>Change</u>
Local revenue sources	\$ 18,470,431	\$ 18,730,079	\$ (259,648)
State revenue sources	56,028,036	55,746,474	281,562
Federal revenue	9,905,434	10,169,850	(264,416)
Total revenues	<u>84,403,901</u>	<u>84,646,403</u>	<u>(242,502)</u>

EXPENDITURES

Instruction	45,862,073	46,927,415	(1,065,342)
Student support services	4,630,442	4,583,742	46,700
Instructional support	5,157,545	6,392,814	(1,235,269)
District administration	720,553	921,477	(200,924)
School administration	3,228,785	3,088,049	140,736
Business support	1,222,700	689,140	533,560
Plant operations	8,472,479	7,875,665	596,814
Student transportation	3,613,277	3,701,474	(88,197)
Food service	5,926,480	5,394,135	532,345
Enterprise operations	109,119	105,494	3,625
Community support	1,065,660	1,129,388	(63,728)
Adult education operations	-	2,502	(2,502)
Building renovations/additions	10,279,308	17,774,841	(7,495,533)
Debt service	5,288,094	5,193,636	94,458
Lease payments	168,130	168,130	-
Total expenditures	<u>95,744,645</u>	<u>103,947,902</u>	<u>(8,203,257)</u>

Revenue in Excess (Deficit) of Expenditures	<u>\$ (11,340,744)</u>	<u>\$ (19,301,499)</u>	<u>\$ 7,960,755</u>
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The major factor in the above change is the result of portions of the proceeds from the \$39,720,000 bond sales in FY 2007 not being expended for building construction until fiscal year 2009.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
LAUREL COUNTY SCHOOL DISTRICT - LONDON, KY
YEAR ENDED JUNE 30, 2009

BUDGETARY IMPLICATIONS

Kentucky's public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the District overall budget. By law the budget must have a minimum 2% contingency. The District adopted a budget with a \$3,852,253 contingency (5.7%). The District ended the year with a \$6,191,350 contingency (8.63%).

LOCAL ECONOMIC OUTLOOK

The economic forecast for the London/Laurel County area continues to be stable.

Census data from the University of Louisville indicates on average a 7% population growth every five years for the next twenty-five years. Laurel County Schools maintained its student population in FY 2009 but has experienced a 150 student increase in FY 2010. Real estate property assessments increased \$44 million for the current fiscal year but this was coupled with a \$41 million decrease in vehicle assessment resulting in no significant change in total property valuation.

Laurel County has an intersection of a north/south interstate, I-75, and a major east/west highway. Economic strength can be found in the balance among manufacturing, professional services, retail trade, tourism, educational, health and social service, and transportation. The area's diverse economic infrastructure has insulated it from major economic downturns. Local government officials continue to be very proactive in attracting new employers to the area and have been successful in attracting new jobs to the area.

CONTACTING THE LAUREL COUNTY SCHOOL DISTRICT MANAGEMENT

Questions regarding this report should be directed to the Business Manager or the Director of Accounting, by phone (606)862-4600 or by mail at 718 North Main Street, London, KY 40741.

LAUREL COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2009

ASSETS	Governmental Activities	Business-type Activities	Total
Current Assets			
Cash and cash equivalents	\$ 10,157,716	\$ 67,654	\$ 10,225,370
SFCC current receivable of bonds payable	751,910	-	751,910
Accounts receivable	2,381,462	120,804	2,502,266
Inventory	410,210	132,128	542,338
Total current assets	13,701,298	320,586	14,021,884
Noncurrent Assets			
SFCC long-term receivable of bond principal	3,905,865	-	3,905,865
Capital assets	140,041,036	13,364,169	153,405,205
Less: accumulated depreciation	(35,683,385)	(3,856,368)	(39,539,753)
Total noncurrent assets	108,263,516	9,507,801	117,771,317
Total assets	\$ 121,964,814	\$ 9,828,387	\$ 131,793,201
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 2,036,880	\$ 30,147	\$ 2,067,027
Interest payable	878,699	-	878,699
Current portion of bond obligations	3,225,000	-	3,225,000
Current portion of capital lease obligations	168,130	-	168,130
Accrued payroll and withholding obligations	1,214,278	-	1,214,278
Current portion of accrued sick leave	168,000	-	168,000
Deferred revenue	360,923	-	360,923
Total current liabilities	8,051,910	30,147	8,082,057
Noncurrent Liabilities			
Noncurrent portion of bond obligations	66,250,000	-	66,250,000
Noncurrent portion of capital lease obligations	252,196	-	252,196
Noncurrent portion of accrued sick leave	539,756	-	539,756
Total noncurrent liabilities	67,041,952	-	67,041,952
Total liabilities	75,093,862	30,147	75,124,009
NET ASSETS			
Invested in capital assets, net of related debt	38,661,727	9,507,801	48,169,528
Restricted for:			
Capital projects	2,770,866	-	2,770,866
Other purposes	393,728	227	393,955
Unrestricted	5,044,631	290,212	5,334,843
Total net assets	46,870,952	9,798,240	56,669,192
Total liabilities and net assets	\$ 121,964,814	\$ 9,828,387	\$ 131,793,201

See notes to financial statements

LAUREL COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2009

FUNCTIONS/PROGRAMS	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities
Governmental Activities						
Instruction	\$ 41,855,508	\$ 15,521	\$ 6,579,846	\$ -	\$ (35,260,141)	\$ -
Support services:						
Student	4,627,622	-	107,900	-	(4,519,722)	-
Instruction staff	5,141,229	-	1,702,944	-	(3,438,285)	-
District administrative	55,116	-	-	-	(55,116)	-
School administrative	3,226,225	-	75,448	-	(3,150,777)	-
Business	1,222,700	-	74,394	-	(1,148,306)	-
Plant operation and maintenance	8,364,403	29,325	67,853	-	(8,267,225)	-
Student transportation	3,059,898	-	15,637	-	(3,044,261)	-
Facilities acquisition and construction	6,432,821	-	-	-	(6,432,821)	-
Food services	-	-	-	-	-	-
Community service activities	1,208,628	-	919,203	-	(289,425)	-
Other	190,000	-	44,481	-	(145,519)	-
Interest on long-term debt	3,388,510	-	-	225,223	(3,163,287)	-
Total governmental activities	78,772,660	44,846	9,587,706	225,223	(68,914,885)	-
Business-type Activities						
Food service	3,829,654	1,774,564	3,424,251	-	-	1,369,161
Adult education	9,053	9,440	-	-	-	387
Day care	109,119	111,063	-	-	-	1,944
Other business activities	6,766	7,500	-	-	-	734
Total business-type activities	3,954,592	1,902,567	3,424,251	-	-	1,372,226
Total school district	\$ 82,727,252	\$ 1,947,413	\$ 13,011,957	\$ 225,223	(68,914,885)	(67,542,659)
General Revenues						
Property taxes					10,243,156	-
Delinquent property tax					483,043	-
Motor vehicle taxes					1,132,288	-
Utility taxes					3,429,848	-
Other taxes					164,572	-
Revenue in lieu of taxes					67,268	-
Investment earnings					843,216	7,265
State aid formula grants					52,972,322	-
Gains on sale of fixed assets					128,620	(423)
Miscellaneous					12,572	5,232
Total general revenues					69,476,905	12,074
Change in net assets					562,020	1,384,300
Net assets - beginning					46,308,932	8,413,940
Net assets - ending					\$ 46,870,952	\$ 9,798,240
						\$ 56,669,192

See notes to financial statements

LAUREL COUNTY SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2009

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 7,624,816	\$ (1,249,266)	\$ 3,782,166	\$ -	\$ 10,157,716
Accounts receivable	670,470	1,710,992	-	-	2,381,462
Inventory	410,210	-	-	-	410,210
Total assets	<u>\$ 8,705,496</u>	<u>\$ 461,726</u>	<u>\$ 3,782,166</u>	<u>\$ -</u>	<u>\$ 12,949,388</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 1,065,600	\$ 100,803	\$ 870,477	\$ -	\$ 2,036,880
Accrued payroll and withholding obligations	1,214,278	-	-	-	1,214,278
Deferred revenue	-	360,923	-	-	360,923
Current portion of accumulated sick leave	168,000	-	-	-	168,000
Total liabilities	<u>2,447,878</u>	<u>461,726</u>	<u>870,477</u>	<u>-</u>	<u>3,780,081</u>
Fund Balances					
Reserved for:					
Encumbrances	66,268	186,638	140,822	-	393,728
Unreserved:					
Designated:					
Capital projects	-	-	2,770,867	-	2,770,867
Undesignated	6,191,350	(186,638)	-	-	6,004,712
Total fund balances	<u>6,257,618</u>	<u>-</u>	<u>2,911,689</u>	<u>-</u>	<u>9,169,307</u>
Total liabilities and fund balances	<u>\$ 8,705,496</u>	<u>\$ 461,726</u>	<u>\$ 3,782,166</u>	<u>\$ -</u>	<u>\$ 12,949,388</u>

See notes to financial statements

LAUREL COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET ASSETS
June 30, 2009

Total fund balance per fund financial statements	\$ 9,169,307
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net assets.	104,357,651
Certain assets are not reported in this fund financial statement because they are not available to pay current-period expenditures, but they are reported in the statement of net assets.	4,657,775
Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets.	<u>(71,313,781)</u>
Net assets of governmental activities	<u><u>\$ 46,870,952</u></u>

See notes to financial statements

LAUREL COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
Year Ended June 30, 2009

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
From local sources					
Property taxes	\$ 5,753,725	\$ -	\$ -	\$ 4,336,944	\$ 10,090,669
Motor vehicle taxes	1,132,288	-	-	-	1,132,288
Utility taxes	3,429,848	-	-	-	3,429,848
Other taxes	800,102	-	-	-	800,102
Earnings on investments	799,192	8,632	44,024	-	851,848
State sources					
SEEK	37,542,163	-	-	-	37,542,163
Other	11,395,713	2,982,536	-	3,806,739	18,184,988
Intermediate sources	-	-	-	-	-
Federal - direct	96,777	67,219	-	-	163,996
Federal - indirect	86,485	6,531,587	-	-	6,618,072
Revenue in lieu of taxes	67,268	-	-	-	67,268
Other revenues	58,958	13,253	-	-	72,211
Total revenues	<u>61,162,519</u>	<u>9,603,227</u>	<u>44,024</u>	<u>8,143,683</u>	<u>78,953,453</u>
Expenditures					
Instruction	36,077,937	6,770,144	-	-	42,848,081
Support services					
Student	4,472,375	107,900	-	-	4,580,275
Instruction staff	3,309,952	1,702,944	-	-	5,012,896
District administration	562,997	-	-	-	562,997
School administration	3,143,333	75,448	-	-	3,218,781
Business	1,144,943	74,394	-	-	1,219,337
Plant operation and maintenance	7,221,070	67,853	-	-	7,288,923
Student transportation	3,396,819	15,637	-	-	3,412,456
Facilities acquisition and construction	-	-	10,279,308	-	10,279,308
Community service activities	137,776	919,203	-	-	1,056,979
Debt service	123,650	44,481	-	5,288,094	5,456,225
Other expenditures	150,259	-	-	-	150,259
Total expenditures	<u>59,741,111</u>	<u>9,778,004</u>	<u>10,279,308</u>	<u>5,288,094</u>	<u>85,086,517</u>
Excess (deficit) of revenues over expenditures	<u>1,421,408</u>	<u>(174,777)</u>	<u>(10,235,284)</u>	<u>2,855,589</u>	<u>(6,133,064)</u>
Other Financing Sources (Uses)					
Net proceeds from sale of fixed assets	128,609	-	-	-	128,609
Operating transfers in	2,269	177,046	2,855,589	5,288,094	8,322,998
Operating transfers out	(177,046)	(2,269)	-	(8,143,683)	(8,322,998)
Total other financing sources (uses)	<u>(46,168)</u>	<u>174,777</u>	<u>2,855,589</u>	<u>(2,855,589)</u>	<u>128,609</u>
Net change in fund balances	<u>1,375,240</u>	<u>-</u>	<u>(7,379,695)</u>	<u>-</u>	<u>(6,004,455)</u>
Fund balance, July 1, 2008	<u>4,882,378</u>	<u>-</u>	<u>10,291,384</u>	<u>-</u>	<u>15,173,762</u>
Fund balance, June 30, 2009	<u>\$ 6,257,618</u>	<u>\$ -</u>	<u>\$ 2,911,689</u>	<u>\$ -</u>	<u>\$ 9,169,307</u>

See notes to financial statements

LAUREL COUNTY SCHOOL DISTRICT**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

Year Ended June 30, 2009

Net change in total fund balances per fund financial statements	\$ (6,004,455)
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Amounts reported for governmental activities in the statement of activities
are different because:

Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.	4,527,400
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The proceeds for the issuance of bonds provide current financial resources and are reported in this fund financial statement but they are presented as liabilities in the statement of net assets.	(4,050,000)
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Unrealized gains and losses are not presented in this financial statement because they do not provide or use current financial resources but they are presented in the statement of activities.	(17,050)
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Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net assets.	6,920,000
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Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.	<u>(813,875)</u>
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Change in net assets of governmental activities	<u><u>\$ 562,020</u></u>
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See notes to financial statements

LAUREL COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL-GENERAL FUND
Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original Tentative</u>	<u>Final Working</u>		
Revenues				
From local sources				
Property taxes	\$ 6,403,000	\$ 6,242,821	\$ 5,753,725	\$ (489,096)
Motor vehicle taxes	1,300,000	1,203,483	1,132,288	(71,195)
Utility taxes	3,200,000	3,300,000	3,429,848	129,848
Other taxes	-	-	800,102	800,102
Earnings on investments	600,000	600,000	799,192	199,192
State sources				
SEEK	37,778,431	37,483,244	37,542,163	58,919
Other	9,971,250	12,544,750	11,395,713	(1,149,037)
Federal - direct	30,000	30,000	96,777	66,777
Federal - indirect	-	150,000	86,485	(63,515)
Revenue in lieu of taxes	70,000	70,000	67,268	(2,732)
Other revenues	81,900	174,900	58,958	(115,942)
Total revenues	<u>59,434,581</u>	<u>61,799,198</u>	<u>61,162,519</u>	<u>(636,679)</u>
Expenditures				
Instruction	36,250,389	37,546,256	36,077,937	1,468,319
Support services				
Student	4,396,948	4,602,505	4,472,375	130,130
Instruction staff	3,116,811	3,492,560	3,309,952	182,608
District administration	720,823	738,930	562,997	175,933
School administration	2,994,654	3,141,779	3,143,333	(1,554)
Business	1,492,503	1,373,583	1,144,943	228,640
Plant operation and maintenance	7,217,049	7,763,537	7,221,070	542,467
Student transportation	3,580,593	3,568,186	3,396,819	171,367
Community services	48,677	170,777	137,776	33,001
Debt service	79,169	79,169	123,650	(44,481)
Other expenditures	157,526	153,038	150,259	2,779
Total expenditures	<u>60,055,142</u>	<u>62,630,320</u>	<u>59,741,111</u>	<u>2,889,209</u>
Excess (deficit) of revenues over expenditures	<u>(620,561)</u>	<u>(831,122)</u>	<u>1,421,408</u>	<u>2,252,530</u>
Other Financing Sources (Uses)				
Proceeds from sale of fixed assets	-	-	128,609	128,609
Operating transfers in	-	-	2,269	2,269
Operating transfers out	-	(200,000)	(177,046)	22,954
Total other financing sources (uses)	<u>-</u>	<u>(200,000)</u>	<u>(46,168)</u>	<u>153,832</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>(620,561)</u>	<u>(1,031,122)</u>	<u>1,375,240</u>	<u>2,406,362</u>
Fund balance, July 1, 2008	<u>3,774,094</u>	<u>4,882,378</u>	<u>4,882,378</u>	<u>-</u>
Fund balance, June 30, 2009	<u>\$ 3,153,533</u>	<u>\$ 3,851,256</u>	<u>\$ 6,257,618</u>	<u>\$ 2,406,362</u>

See notes to financial statements

LAUREL COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
June 30, 2009

ASSETS	Food Service Fund	Other Enterprise Funds	Total
Current Assets			
Cash and cash equivalents	\$ 8,227	\$ 59,427	\$ 67,654
Other receivables	119,927	877	120,804
Inventories	132,128	-	132,128
Total current assets	<u>260,282</u>	<u>60,304</u>	<u>320,586</u>
Noncurrent Assets			
Capital assets	13,364,169	-	13,364,169
Less: accumulated depreciation	(3,856,368)	-	(3,856,368)
Total noncurrent assets	<u>9,507,801</u>	<u>-</u>	<u>9,507,801</u>
Total assets	<u>9,768,083</u>	<u>60,304</u>	<u>9,828,387</u>
LIABILITIES			
Current Liabilities			
Accounts payable	29,993	154	30,147
Total current liabilities	<u>29,993</u>	<u>154</u>	<u>30,147</u>
NET ASSETS			
Invested in capital assets, net of related debt	9,507,801	-	9,507,801
Restricted for:			
Other	-	227	227
Unrestricted	230,289	59,923	290,212
Total net assets	<u>\$ 9,738,090</u>	<u>\$ 60,150</u>	<u>\$ 9,798,240</u>

See notes to financial statements

LAUREL COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS -
PROPRIETARY FUNDS
Year Ended June 30, 2009

	<u>Food Service Fund</u>	<u>Other Enterprise Funds</u>	<u>Total</u>
Operating Revenues			
Food service sales	\$ 1,774,564	\$ 3,655	\$ 1,778,219
Community service activities	-	120,503	120,503
Other operating revenues	4,809	1,945	6,754
Total operating revenues	<u>1,779,373</u>	<u>126,103</u>	<u>1,905,476</u>
Operating Expenses			
Salaries and wages	2,174,624	97,213	2,271,837
Professional and contract services	47,154	10,765	57,919
Supplies and materials	1,212,255	16,293	1,228,548
Depreciation	389,267	-	389,267
Other operating expenses	6,354	667	7,021
Total operating expenses	<u>3,829,654</u>	<u>124,938</u>	<u>3,954,592</u>
Operating income (loss)	<u>(2,050,281)</u>	<u>1,165</u>	<u>(2,049,116)</u>
Nonoperating revenues (expenses)			
Federal grants	2,897,175	-	2,897,175
State grants	300,884	-	300,884
Contributions and donations	-	1,900	1,900
Donated commodities	226,192	-	226,192
Interest income	7,265	-	7,265
Total nonoperating revenues (expenses)	<u>3,431,516</u>	<u>1,900</u>	<u>3,433,416</u>
Net income (loss)	1,381,235	3,065	1,384,300
Net assets, July 1, 2008	<u>8,356,855</u>	<u>57,085</u>	<u>8,413,940</u>
Net assets, June 30, 2009	<u>\$ 9,738,090</u>	<u>\$ 60,150</u>	<u>\$ 9,798,240</u>

See notes to financial statements

LAUREL COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
Year Ended June 30, 2009

	Food Service Fund	Other Enterprise Funds	Total
Cash Flows from Operating Activities			
Cash received from lunchroom sales	\$ 1,735,510	\$ 3,673	\$ 1,739,183
Cash received from user charges	-	119,727	119,727
Cash received from other activities	5,232	1,945	7,177
Cash payments to employees for services	(1,926,488)	(97,213)	(2,023,701)
Cash payments to suppliers for goods and services	(1,048,410)	(27,222)	(1,075,632)
Cash payments for other operating activities	(6,353)	(667)	(7,020)
Net cash provided by (used in) operating activities	<u>(1,240,509)</u>	<u>243</u>	<u>(1,240,266)</u>
Cash Flows from Capital and Related Financing Activities			
Acquisition of capital assets less realized loss	(1,946,568)	-	(1,946,568)
Net cash (used in) capital and related financing activities	<u>(1,946,568)</u>	<u>-</u>	<u>(1,946,568)</u>
Cash Flows from Noncapital Financing Activities			
Nonoperating grants received	2,949,923	1,900	2,951,823
Net cash provided by noncapital financing activities	<u>2,949,923</u>	<u>1,900</u>	<u>2,951,823</u>
Cash Flows from Investing Activities			
Interest on investments	7,265	-	7,265
Net cash provided by investing activities	<u>7,265</u>	<u>-</u>	<u>7,265</u>
Net increase (decrease) in cash and cash equivalents	(229,889)	2,143	(227,746)
Cash and cash equivalents - beginning of year	238,116	57,284	295,400
Cash and cash equivalents - end of year	<u>\$ 8,227</u>	<u>\$ 59,427</u>	<u>\$ 67,654</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Operating income (loss)	\$ (2,050,281)	\$ 1,165	\$ (2,049,116)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Depreciation	389,267	-	389,267
Donated commodities	226,192	-	226,192
On-behalf payments	248,136	-	248,136
Realized loss on sale of assets	423	-	423
Changes in assets and liabilities:			
Receivables	(39,053)	(757)	(39,810)
Inventory	(15,309)	-	(15,309)
Accounts payable	116	(165)	(49)
Net Cash Provided by (Used in) Operating Activities	<u>\$ (1,240,509)</u>	<u>\$ 243</u>	<u>\$ (1,240,266)</u>
Non-Cash Non-Capital Financing Activities			
Donated commodities received from federal government	<u>\$ 226,192</u>	<u>\$ -</u>	<u>\$ 226,192</u>

See notes to financial statements

LAUREL COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
June 30, 2009

	<u>Agency Fund</u>
Assets	
Cash and cash equivalents	\$ 402,711
Accounts receivable	<u>13,118</u>
Total assets	<u>\$ 415,829</u>
Liabilities	
Accounts payable	\$ 29,966
Due to student groups	<u>385,863</u>
Total liabilities	<u>\$ 415,829</u>

See notes to financial statements

LAUREL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Laurel County Board of Education ("Board"), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Laurel County School District ("District"). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and activities relevant to the operation of the Laurel County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements.

Laurel County School District Finance Corporation - In a prior year the Board of Education resolved to authorize the establishment of the Laurel County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the "Corporation") as an agency of the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors.

LAUREL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basis of Presentation

District-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental, which normally are supported by tax revenues, and those that are considered business-type activities, which rely significantly on fees and charges for support.

The district-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the district-wide statements and the statements for governmental funds.

The district-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in total fund balances. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Government Fund Types

- (A) The General Fund is the main operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.

LAUREL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Presentation - continued

I. Government Fund Types - continued

- (B) The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on pages 45 through 48. This is a major fund of the District.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan. This is a nonmajor fund of the District.
 - 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan. This is a nonmajor fund of the District.
 - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
- (D) The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky law. This is a nonmajor fund of the District.

II. Proprietary Fund Types (Enterprise Fund)

- (A) The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund of the District.

LAUREL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Presentation - continued

II. Proprietary Fund Types (Enterprise Fund) - continued

The District applies all Governmental Accounting Standards Board (GASB) pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

III. Fiduciary Fund Type (Agency Funds)

- (A) The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Kentucky Department of Education publication *Uniform Program of Accounting for School Activity Funds*.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. District-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions - Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

LAUREL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basis of Accounting - continued

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property taxes are levied by September 30 on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2009, to finance the General Fund operations were \$.422 per \$100 valuation for real property, \$.431 per \$100 valuation for business personal property and \$.350 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

LAUREL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the district-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the district-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computer CPU's for which there is no threshold. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
School buses	10 years
Other vehicles	5 years
Audio-visual equipment	15 years
Food service equipment	12 years
Furniture and fixtures	20 years
Rolling stock	15 years
Other general equipment	10 years

Interfund Receivables and Payables

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

LAUREL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

The entire compensated absence liability is reported on the district-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded on the modified accrual basis of accounting (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded on the modified accrual basis of accounting (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Budgetary receipts represent original estimates modified for adjustments, if any, during the fiscal year. Budgetary disbursements represent original appropriations adjusted for budget transfers and additional appropriations, if any, approved during the fiscal year.

Each budget is prepared and controlled at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

LAUREL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Inventories

On district-wide and governmental fund financial statements inventories of supplies and materials are stated at cost and are expensed when used.

The school food service fund inventory consists of food, supplies and U.S. Government commodities.

The food service fund inventory is stated at cost and uses the specific identification method and the general fund inventory is stated at cost and uses the first-in, first-out method.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the district-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for fixed assets.

Encumbrances

Encumbrances are reported as a reservation of fund balance and are not reported as expenditures until incurred. Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end, and outstanding encumbrances at year-end are reappropriated in the next year. A reservation of fund balance equal to outstanding encumbrances at year-end is provided for at June 30, 2009 in the governmental funds balance sheet.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

LAUREL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTE B - ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C - CUSTODIAL CREDIT RISK - DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2009, none of the District's bank balance was exposed to custodial credit risk because of coverage by Federal Depository insurance and by collateral agreements and collateral held by the pledging banks' trust departments in the District's name.

LAUREL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2009

NOTE C - CUSTODIAL CREDIT RISK - DEPOSITS - CONTINUED

Cash and cash equivalents at June 30, 2009 consisted of the following:

	Bank Balance	Book Balance
First National Bank & Trust	\$11,591,880	\$ 10,356,763
Cumberland Valley National Bank & Trust	336,320	269,059
Petty cash	<u>-</u>	<u>2,259</u>
	<u>\$11,928,200</u>	<u>\$ 10,628,081</u>

Breakdown per financial statements is as follows:

Governmental funds	\$ 10,157,716
Proprietary funds	67,654
Agency funds	<u>402,711</u>
	<u>\$ 10,628,081</u>

NOTE D - RECEIVABLES

The District recognizes revenues as receivables when they are measurable and receipt is probable. Concentration of credit risk with respect to the receivables from federal and state governments is limited due to the historical stability of those institutions. While the District receives revenues from many different sources throughout each year, accounts and grants receivable from outside sources may be grouped into the following categories, (as stated in the District-wide financial statements):

	June 30, 2009 Balance
Accounts receivable from outside sources	
Accounts receivable	\$ 310,952
Taxes receivable	480,322
Grants receivable	<u>1,710,992</u>
	<u>\$ 2,502,266</u>

Federal and state grants to be used or expended as specified by the grantor are recognized as revenue and recorded as receivables as qualifying expenditures are made.

LAUREL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2009

NOTE E - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2009 was as follows:

<u>Governmental Activities</u>	<u>Balance July 1, 2008</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2009</u>
Land and land improvements	\$ 7,099,568	\$ 109,500	\$ 51,720	\$ 7,157,348
Buildings and improvements	89,138,030	23,979,115	355,222	112,761,923
Technology	6,799,200	487,020	422,106	6,864,114
Vehicles	7,436,516	638,225	302,978	7,771,763
General equipment	1,748,867	60,612	88,885	1,720,594
Construction in progress	<u>19,546,521</u>	<u>3,765,294</u>	<u>19,546,521</u>	<u>3,765,294</u>
Totals at historical cost	131,768,702	29,039,766	20,767,432	140,041,036
Less accumulated depreciation	<u>31,921,401</u>	<u>4,756,971</u>	<u>994,987</u>	<u>35,683,385</u>
 Governmental Activities Capital Assets - Net	 <u>\$ 99,847,301</u>	 <u>\$ 24,282,795</u>	 <u>\$ 19,772,445</u>	 <u>\$ 104,357,651</u>
 <u>Business-Type Activities</u>				
Buildings	\$ 9,178,452	\$ 1,623,983	\$ 26,300	\$ 10,776,135
Technology	83,515	-	5,088	78,427
General equipment	<u>2,193,262</u>	<u>329,417</u>	<u>13,072</u>	<u>2,509,607</u>
Totals at historical cost	11,455,229	1,953,400	44,460	13,364,169
Less accumulated depreciation	<u>3,504,305</u>	<u>389,267</u>	<u>37,204</u>	<u>3,856,368</u>
 Business-Type Activities Capital Assets - Net	 <u>\$ 7,950,924</u>	 <u>\$ 1,564,133</u>	 <u>\$ 7,256</u>	 <u>\$ 9,507,801</u>

LAUREL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2009

NOTE E – CAPITAL ASSETS - CONTINUED

Depreciation expense for business-type activities was entirely incurred in the operation of the School Food Services. Depreciation for governmental activities was charged to governmental functions as follows:

Instruction	\$ 3,008,576
Student	50,168
Instruction staff	143,434
District administrative	156,600
School administrative	10,004
Business	3,363
Plant operation and maintenance	1,183,556
Student transportation	199,880
Community service	<u>1,390</u>
	<u>\$ 4,756,971</u>

NOTE F - LONG-TERM OBLIGATIONS

The original amount of each issue, the issue date, and interest rates of bonded debt and lease obligations are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
1995	\$ 5,295,000	4.40% - 4.60%
1998	8,350,000	3.90% - 4.60%
1999	5,245,000	4.125%-4.625%
2001	2,150,000	4.60% - 5.00%
2003	4,385,000	1.15% - 3.80%
2004	9,280,000	2.00% - 4.95%
2005	8,180,000	3.50% - 4.00%
2006	14,510,000	4.50%-4.625%
2007	25,210,000	4.00% - 5.00%
2008	3,550,000	2.40% - 3.60%
2009	4,050,000	1.50% - 3.15%

The District, through the General Fund, including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund, is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Laurel County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

In 1987, the District entered into "participation agreements" with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements. The District has reflected the amount due from the Commission over the life of the bonds as a receivable in the Statement of Net Assets since there is no reason to believe that the Kentucky General Assembly will not continue to approve continued participation.

LAUREL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2009

NOTE F - LONG-TERM OBLIGATIONS - CONTINUED

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2009 for debt service (principal and interest) are as follows:

Year	Laurel County School District		Kentucky School Facility Construction Commission		Total
	Principal	Interest	Principal	Interest	
2009-10	\$ 2,507,364	\$ 2,748,099	\$ 717,636	\$ 171,208	\$ 6,144,307
2010-11	2,589,489	2,662,655	740,511	148,792	6,141,447
2011-12	2,695,656	2,555,089	354,344	119,579	5,724,668
2012-13	2,798,932	2,454,225	331,068	108,482	5,692,707
2013-14	2,910,111	2,339,640	269,889	97,487	5,617,127
2014-15	3,022,529	2,230,767	262,471	88,176	5,603,943
2015-16	3,143,141	2,116,147	271,859	78,788	5,609,935
2016-17	3,253,039	1,996,105	281,961	68,685	5,599,790
2017-18	3,399,109	1,851,154	235,891	58,164	5,544,318
2018-19	3,530,171	1,747,927	244,829	49,227	5,572,154
2019-20	3,690,076	1,618,244	114,924	39,870	5,463,114
2020-21	3,854,734	1,455,249	120,266	34,528	5,464,777
2021-22	4,054,144	1,253,876	125,856	28,937	5,462,813
2022-23	4,243,294	1,066,152	131,706	23,087	5,464,239
2023-24	4,437,171	868,109	137,829	16,965	5,460,074
2024-25	4,684,996	620,686	100,004	10,558	5,416,244
2025-26	4,905,392	404,583	104,608	5,954	5,420,537
2026-27	5,132,151	174,043	77,849	1,800	5,385,843
	<u>\$64,851,499</u>	<u>\$30,162,750</u>	<u>\$ 4,623,501</u>	<u>\$ 1,150,287</u>	<u>\$ 100,788,037</u>

A summary of the changes in long-term liabilities during the fiscal year ended June 30, 2009 is as follows:

Governmental Activities	Balance July 1, 2008	Additions	Deductions	Balance June 30, 2009
Bonded debt and lease obligations	\$ 72,345,000	\$ 4,050,000	\$ 6,920,000	\$ 69,475,000
Capital lease obligations	588,456	-	168,130	420,326
Accrued sick leave	448,498	91,258	-	539,756
	<u>\$ 73,381,954</u>	<u>\$ 4,141,258</u>	<u>\$ 7,088,130</u>	<u>\$ 70,435,082</u>

LAUREL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2009

NOTE F - LONG-TERM OBLIGATIONS - CONTINUED

School Building Revenue Bonds

In May 2009, the Laurel County School District Finance Corporation issued \$4,050,000 in School Building Revenue Bonds with interest rates ranging from 1.5% to 3.15% over the life of the bonds. The net proceeds were used to pay off the Johnson-Camp Ground-Hazel Green Issue No. XV from 1999 resulting in a savings of \$310,265 over the remaining life of the bonds.

NOTE G - RETIREMENT PLANS

The District contributes to the Teachers' Retirement System of Kentucky ("KTRS"), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school system and other educational agencies in Kentucky.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes ("KRS").

Certified employees are covered under KTRS. KTRS also establishes the contribution rates. Funding for the plan is provided through member payroll withholdings and matching State contributions. Effective July 1, 2008, new KTRS members are required to pay 10.855% of their salary, while all other members hired prior to that date continue to pay 9.855%. The matching contributions that are paid by the Federal program for any salaries paid by that program is 13.105%, or 14.105% for new members hired after July 1, 2008.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System ("CERS"), a cost-sharing, multiple employer, public employers retirement system. Funding for the plan is provided through payroll withholdings and matching District contributions. Effective September 1, 2008, new CERS members are required to pay 6% of their salary, while all other members hired prior to that date continue to pay 5%. The District's contribution is 13.5% of the employee's total compensation subject to contribution.

The District's total payroll for the year was \$46,374,592. The payroll for employees covered under KTRS was \$35,992,209 and for CERS was \$10,033,781. The payroll for part time temporary employees which are not covered under either retirement system was \$348,602.

The contribution requirement for CERS for the years ended June 30, 2009, 2008 and 2007 were \$1,859,383, \$2,126,252, and \$1,733,877, respectively. The contribution requirement for KTRS for the years ended June 30, 2009, 2008 and 2007 were \$3,980,694, \$3,926,774, and \$3,574,993, respectively.

Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the plan documents.

The KTRS and CERS each issue a publicly available financial report that includes financial statements and required supplementary information. Those reports may be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601 (KTRS) and Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601 (CERS).

The District also offers employees the option to participate in a defined contribution plan under Section 403(B), 401(K) and 457 of the Internal Revenue Code. All employees are eligible to participate and may contribute up to the maximum amount allowable by law. The District does not contribute to these plans.

LAUREL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2009

NOTE H - LEASES

The District leases maintenance equipment when needed and office copiers on an annual basis under operating leases. For the year ended June 30, 2009, aggregate cost for equipment and copier rentals was \$292,278.

In fiscal year 2007 the Kentucky legislature authorized a state wide five year \$50 million bond issue for technology updates and provided funding to pay all of the interest during the life of the bonds and a portion of the annual principal payments for two years for participating districts. The District chose to participate and received \$840,652 in capital lease proceeds which were used to provide interactive white boards and projectors in classrooms throughout the District. The annual payment is \$168,130 and the State is funding \$88,961 to the District annually for two years. The District is liable for the entire \$168,130 annual principal payment for the remaining three years of the lease if the State does not provide additional funding in the future.

The following is a schedule by years of the future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 2009:

<u>Year</u>	
2009-10	\$ 168,130
2010-11	168,130
2011-12	<u>84,066</u>
Total minimum lease payments	420,326
Less amount representing interest (non-interest bearing)	<u>-</u>
Present value of minimum lease payments	420,326
Capital lease obligations, due within one year	<u>168,130</u>
Capital lease obligations, due after one year	<u>\$ 252,196</u>

The following is an analysis of the assets under capital lease obligations:

<u>Class of Property</u>	<u>Net Book Value as of June 30, 2009</u>
White Boards	<u>\$ 490,118</u>

LAUREL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2009

NOTE I - CONTINGENCIES

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of moneys advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicted upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE J - LITIGATION

The District is subject to legal actions in various states of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the financial statements as a result of the cases presently in progress.

NOTE K - INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance.

NOTE L - RISK MANAGEMENT

To obtain insurance of errors and omissions and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. The public entity risk pools operate as common risk management and insurance programs for all school district and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the members on a pro rata basis.

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance for workers' compensation coverage, the District contracted with Public Entity Insurance. Contributions for Workers' Compensation coverage are based on premium rates established in conjunction with the insurance carrier, subject to claims experience modifications and discounts.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

LAUREL COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2009

NOTE M – DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following fund had operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance:

Construction Fund	\$7,379,696
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NOTE N – COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency).

NOTE O – TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	General	Special Revenue	Technology Match	\$ 177,046
Operating	Capital Outlay	Construction	Construction	823,867
Operating	Building	Construction	Construction	2,031,722
Operating	Building	Debt Service	Debt Service	5,288,094
Operating	Special Revenue	General	Reimbursement	2,269

NOTE P – INTERFUND RECEIVABLES AND PAYABLES

At June 30, 2009, there were no interfund balances outstanding that would be reflected in the financial statements.

NOTE Q – ON-BEHALF PAYMENTS

For the year ended June 30, 2009 total payments of \$11,504,233 were made for life insurance, health insurance, KTRS matching and administrative fees by the Commonwealth of Kentucky on behalf of the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts on the statement of revenues, expenses and changes in fund balances.

NOTE R – SUBSEQUENT EVENTS

Date of Management Evaluation

Management of the District has evaluated subsequent events through October 26, 2009, the date on which the financial statements were available to be issued. No events have occurred subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.

SUPPLEMENTARY INFORMATION

LAUREL COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS
June 30, 2009

	<u>Capital Outlay Fund</u>	<u>Building Fund</u>	<u>Debt Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS				
Cash and cash equivalents	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total assets	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
LIABILITIES AND FUND BALANCES				
Liabilities			-	
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund Balances				
Designated for capital projects	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
Total liabilities and fund balances	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

See accompanying independent auditor's report

LAUREL COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2009

	Capital Outlay Fund	Building Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Revenues				
From local sources				
Property taxes	\$ -	\$ 4,336,944	\$ -	\$ 4,336,944
State sources				
SEEK	-	-	-	-
Other	823,867	2,982,872	-	3,806,739
Total revenues	<u>823,867</u>	<u>7,319,816</u>	<u>-</u>	<u>8,143,683</u>
Expenditures				
Debt service	-	-	5,288,094	5,288,094
Total expenditures	<u>-</u>	<u>-</u>	<u>5,288,094</u>	<u>5,288,094</u>
Excess (deficit) of revenues over expenditures	<u>823,867</u>	<u>7,319,816</u>	<u>(5,288,094)</u>	<u>2,855,589</u>
Other Financing Sources (Uses)				
Operating transfers in	-	-	5,288,094	5,288,094
Operating transfers out	(823,867)	(7,319,816)	-	(8,143,683)
Total other financing sources (uses)	<u>(823,867)</u>	<u>(7,319,816)</u>	<u>5,288,094</u>	<u>(2,855,589)</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, July 1, 2008	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30, 2009	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying independent auditor's report

LAUREL COUNTY SCHOOL DISTRICT
COMBINED BALANCE SHEET - SCHOOL ACTIVITY FUNDS
June 30, 2009

	Bush Elementary School	Camp Ground Elementary School	Cold Hill Elementary School	Colony Elementary School	Hazel Green Elementary School	Hunter Hills Elementary School	Johnson Elementary School	Keavy Elementary School	London Elementary School	North Laurel High School	North Laurel Middle School	South Laurel High School	South Laurel Middle School	Sublimity Elementary School	Wyan-Pine Elementary School	Total Agency Funds
ASSETS																
Cash	\$ 17,410	\$ 13,780	\$ 13,780	\$ 7,272	\$ 10,624	\$ 13,323	\$ 6,589	\$ 8,323	\$ 14,129	\$ 100,442	\$ 49,745	\$ 74,556	\$ 51,271	\$ 13,317	\$ 8,150	\$ 402,711
Accounts receivable	180	52	244	402	74	276	178	261	1,193	5,596	1,498	2,384	418	148	214	13,118
Interest receivable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	\$ 17,590	\$ 13,832	\$ 14,024	\$ 7,674	\$ 10,698	\$ 13,599	\$ 6,767	\$ 8,584	\$ 15,322	\$ 106,038	\$ 51,243	\$ 76,940	\$ 51,689	\$ 13,465	\$ 8,364	\$ 415,829
LIABILITIES AND FUND BALANCES																
Accounts payable	\$ 2,402	\$ 96	\$ 36	\$ -	\$ -	\$ 793	\$ 100	\$ 108	\$ 2,989	\$ 5,416	\$ 4,972	\$ 259	\$ 11,692	\$ 1,103	\$ -	\$ 29,966
Total liabilities	2,402	96	36	-	-	793	100	108	2,989	5,416	4,972	259	11,692	1,103	-	29,966
Fund balances: Unreserved	15,188	13,736	13,988	7,674	10,698	12,806	6,667	8,476	12,333	100,622	46,271	76,681	39,997	12,362	8,364	385,863
Total liabilities and fund balances	\$ 17,590	\$ 13,832	\$ 14,024	\$ 7,674	\$ 10,698	\$ 13,599	\$ 6,767	\$ 8,584	\$ 15,322	\$ 106,038	\$ 51,243	\$ 76,940	\$ 51,689	\$ 13,465	\$ 8,364	\$ 415,829

See accompanying independent auditor's report

LAUREL COUNTY SCHOOL DISTRICT
COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - SCHOOL ACTIVITY FUNDS
Year Ended June 30, 2009

	Bush Elementary School	Camp Ground Elementary School	Cold Hill Elementary School	Colony Elementary School	Hazel Green Elementary School	Hunter Hills Elementary School	Johnson Elementary School	Keavy Elementary School	London Elementary School	North Laurel High School	North Laurel Middle School	South Laurel High School	South Laurel Middle School	Sublimity Elementary School	Wyan-Pine Elementary School	Totals Agency Funds
REVENUES:																
Local sources	\$ 29,435	\$ 15,628	\$ 18,269	\$ 8,446	\$ 17,089	\$ 48,803	\$ 18,380	\$ 13,734	\$ 45,137	\$ 519,301	\$ 195,292	\$ 456,882	\$ 223,205	\$ 43,522	\$ 21,610	\$ 1,674,733
EXPENDITURES:																
Student body activities	28,362	13,810	16,021	11,334	20,636	55,306	16,370	13,033	45,524	503,703	179,272	480,638	244,540	41,218	30,954	1,700,721
Excess (deficit) of revenues over expenditures	1,073	1,818	2,248	(2,888)	(3,547)	(6,503)	2,010	701	(387)	15,598	16,020	(23,756)	(21,335)	2,304	(9,344)	(25,988)
OTHER FINANCING SOURCES:																
Operating transfers in	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Excess (deficit) of revenues and other financing sources over expenditures	1,073	1,818	2,248	(2,888)	(3,547)	(6,503)	2,010	701	(387)	15,598	16,020	(23,756)	(21,335)	2,304	(9,344)	(25,988)
FUND BALANCE, July 1, 2008	14,115	11,918	11,740	10,562	14,245	19,309	4,657	7,775	12,720	85,024	30,251	100,437	61,332	10,058	17,708	411,851
FUND BALANCE, June 30, 2009	\$ 15,188	\$ 13,736	\$ 13,988	\$ 7,674	\$ 10,698	\$ 12,806	\$ 6,667	\$ 8,476	\$ 12,333	\$ 100,622	\$ 46,271	\$ 76,681	\$ 39,997	\$ 12,362	\$ 8,364	\$ 365,863

See accompanying independent auditor's report

LAUREL COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND FUND BALANCES-
SOUTH LAUREL COUNTY HIGH SCHOOL ACTIVITY FUND
Year Ended June 30, 2009

	Fund Balances July 1, 2008	Revenues	Expenditures	Fund Balances June 30, 2009
Accounts:				
Agriculture	\$ 8,091	\$ 24,170	\$ 20,881	\$ 11,380
Advisory Council	-	3,324	3,324	-
Art Department	49	9,243	4,623	4,669
Athletics	5,665	111,955	117,533	87
Baseball Club	5,877	22,810	24,456	4,231
Beta Club	122	3,376	3,498	-
Boys Basketball Club	1,550	21,109	19,193	3,466
Chorale Club	873	1,921	1,752	1,042
Cross Country Sports	277	-	-	277
Culinary Skills	409	280	40	649
Guidance Department	2,564	17,323	19,887	-
Dance	2,446	36,740	36,158	3,028
DECA	1,584	7,053	8,461	176
Drama Club	167	-	167	-
Energy Club	3	-	3	-
Fashion Club	173	533	220	486
First Priority	-	412	279	133
Football Club	2,036	7,682	7,598	2,120
Forensics	-	646	637	9
F.B.L.A.	261	167	90	338
F.C.C.L.A.	737	2,883	3,122	498
F.M.D. #2	336	3,249	3,484	101
General	6,127	14,880	19,546	1,461
Girls Basketball Club	13,102	16,483	25,100	4,485
Girls Golf Club	399	424	225	598
Girls Soccer Club	400	-	330	70
Girls Jr Soccer Club	185	59	244	-
Girls Softball Club	1,308	20,473	20,074	1,707
Golf Club	229	53	223	59
Journalism	16,199	22,931	23,180	15,950
Junior Class	4,308	15,101	15,238	4,171
J.R.O.T.C.	2,062	7,796	7,158	2,700
Keyettes	2,086	4,819	4,870	2,035
Library Department	387	712	221	878
Madrigal	920	27,430	26,125	2,225
Outdoor Club	-	57	-	57
Parking	1,181	14,284	15,465	-
Project Grad	294	-	294	-
Science Club	2,779	755	2,950	584
Senior Class	3	16,510	14,920	1,593
SLHS Pepclub	4	-	4	-
Special Games	266	-	-	266
Staff Vending	734	3,274	3,291	717
Tennis Club	4	-	-	4
TIP	538	187	201	524
UNITE	130	294	424	-

See accompanying independent auditor's report

LAUREL COUNTY SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND FUND BALANCES-
SOUTH LAUREL COUNTY HIGH SCHOOL ACTIVITY FUND - CONTINUED
Year Ended June 30, 2009**

	<u>Fund Balances July 1, 2008</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Fund Balances June 30, 2009</u>
Accounts:				
Volleyball Club	\$ 426	\$ 2,994	\$ 2,486	\$ 934
Varsity Cheerleaders	6,561	20,620	25,161	2,020
Vending Machines	5,408	7,322	12,500	230
Young Republicans	400	-	-	400
YSC Donations	<u>777</u>	<u>375</u>	<u>829</u>	<u>323</u>
Subtotals	100,437	472,709	496,465	76,681
Inter-fund Transfers	<u>-</u>	<u>(15,827)</u>	<u>(15,827)</u>	<u>-</u>
Totals	<u>\$ 100,437</u>	<u>\$ 456,882</u>	<u>\$ 480,638</u>	<u>\$ 76,681</u>

See accompanying independent auditor's report

LAUREL COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND FUND BALANCES-
NORTH LAUREL COUNTY HIGH SCHOOL ACTIVITY FUND
Year Ended June 30, 2009

	Fund Balances July 1, 2008	Revenues	Expenditures	Fund Balances June 30, 2009
Accounts:				
Academic Team	\$ 3	\$ -	\$ -	\$ 3
Art Club	1,102	-	-	1,102
Athletics	13,256	279,473	284,844	7,885
Beta Club	3,067	3,218	3,243	3,042
Business Co-op Class	2,750	3,288	3,179	2,859
Bus Transportation	1,501	-	-	1,501
Dance Team	104	13,070	12,144	1,030
DECA	2	-	-	2
Donation Incentives	1,346	852	800	1,398
Drama Club	2,516	2,305	3,912	909
First Priority	1,336	415	-	1,751
Flower Fund-Faculty	256	31	40	247
Future Educators	425	-	86	339
F.B.L.A.	182	170	164	188
F.C.A.	-	116	40	76
F.C.C.L.A.	70	1,400	986	484
F.F.A.	4,499	18,272	15,104	7,667
F.M.D. Club	178	5,731	5,116	793
General	483	25,722	22,313	3,892
Junior Class	4,965	9,213	6,909	7,269
Library	48	3	-	51
Marching Band	379	4,383	4,662	100
Mu Alpha Theta	60	91	70	81
Musical	-	2,885	1,203	1,682
National Honor Society	1,665	1,078	1,625	1,118
North Financial	402	50,896	49,592	1,706
N.J.R.O.T.C.	7,204	1,804	1,469	7,539
Pep Club	373	28	-	401
Rodeo Club	407	2,902	1,278	2,031
Science Club	1	1,409	1,131	279
Senior Class	436	12,773	11,451	1,758
Singing Jags	1,594	7,550	6,806	2,338
Spanish Club	1,475	6,907	6,221	2,161
Student Council	1,287	-	1,000	287
Student Flower Fund	3	-	-	3
Student Vending	1,548	7,335	8,381	502
S.A.D.D. Club	931	-	-	931
STLP	3,696	2,292	1,346	4,642
Teacher Vending	4,443	5,212	8,384	1,271
Tech. Student Assoc.	529	2,190	1,319	1,400
Textbook Replacement	5,705	3,202	668	8,239
UNITE	(47)	-	885	(932)

See accompanying independent auditor's report

LAUREL COUNTY SCHOOL DISTRICT**STATEMENT OF REVENUES, EXPENDITURES, AND FUND BALANCES-
NORTH LAUREL COUNTY HIGH SCHOOL ACTIVITY FUND - CONTINUED
Year Ended June 30, 2009**

	<u>Fund Balances July 1, 2008</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Fund Balances June 30, 2009</u>
Accounts:				
Yearbook	\$ 14,432	\$ 26,737	\$ 22,010	\$ 19,159
Young Democrats	-	25	-	25
Young Republicans	-	735	30	705
Charitable Gaming	-	23,900	23,899	1
Youth Service Center	<u>412</u>	<u>600</u>	<u>305</u>	<u>707</u>
Subtotals	85,024	528,213	512,615	100,622
Inter-fund Transfers	<u>-</u>	<u>(8,912)</u>	<u>(8,912)</u>	<u>-</u>
Totals	<u>\$ 85,024</u>	<u>\$ 519,301</u>	<u>\$ 503,703</u>	<u>\$ 100,622</u>

See accompanying independent auditor's report

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

LAUREL COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2009

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass- Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. DEPARTMENT OF DEFENSE</u>			
Direct Program:			
Naval Junior Reserve Officer Training Corps	12.000	33-540-5049N	\$ 49,310
ROTC Miscellaneous	12.000	33-540-5049M	225
Air Force Junior Reserve Officer Training Corps	12.000	33-540-5049A	<u>17,684</u>
Total U.S. Department of Defense			<u>67,219</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Passed Through State Dept. of Education:			
Child Nutrition Cluster			
National School Lunch Program	10.555	7750002	2,132,180
National School Breakfast Program	10.553	7760005	<u>764,995</u>
Total Child Nutrition Cluster			<u>2,897,175</u>
Passed Through State Dept. of Agriculture:			
Food Donation	10.550	N/A	<u>226,192</u>
Total U.S. Department of Agriculture			<u>3,123,367</u>
<u>U.S. DEPARTMENT OF COMMERCE</u>			
Passed Through Eastern Kentucky Pride:			
Pride - Environmental Education	11.469	33-540-2729	<u>6,170</u>
Total U.S. Department of Commerce			<u>6,170</u>
<u>APPALACHIAN REGIONAL COMMISSION</u>			
Passed Through Hazard Community College:			
Challenger Learning Center	23.011	33-540-5179	<u>2,064</u>
Total Appalachian Regional Commission			<u>2,064</u>

See accompanying independent auditor's report

LAUREL COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED
Year Ended June 30, 2009

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass- Through Grantor's Number	Expenditures
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Passed Through State Dept. of Education:			
Title I Program	84.010	33-540-3108	\$ 203,521
Title I Program	84.010	33-540-3109	<u>2,064,769</u>
			2,268,290
Title 1, Part A	84.010A	33-540-3108D	99,759
Title 1, Part A	84.010A	33-540-3108M	1,668
Title 1, Part A	84.010A	33-540-3109D	708,988
Title 1, Part A	84.010A	33-540-3109M	<u>76,242</u>
			886,657
Title 1, Part D	84.010A	33-540-3149	14,934
Title 1, Part D School Improvements	84.010A	33-540-3207	1,856
Title 1, Part D School Improvements	84.010A	33-540-3208	52,422
Title 1, Part D School Improvements	84.010A	33-540-3209	<u>66,343</u>
			120,621
Title I, Neglected/Delinquent Child	84.013	33-540-3139	19,948
Title I, Recovery	84.389A	33-540-3919	6,212
Title I, Recovery	84.389A	33-540-3919D	<u>24</u>
			6,236
Special Education Cluster			
Special Education	84.027A	33-540-3378	78,920
Special Education	84.027A	33-540-3379	1,544,717
Special Education, Preschool	84.173A	33-540-3439	<u>51,633</u>
Total Special Education Cluster			1,675,270
Vocational Education, Basic - Title IIC	84.048	33-540-3487A	2,777
Vocational Education, Basic - Title IIC	84.048	33-540-3488	7,524
Vocational Education, Basic - Title IIC	84.048	33-540-3488A	2,461
Vocational Education, Basic - Title IIC	84.048	33-540-3489	115,452
Vocational Education, Basic - Title IIC	84.048	33-540-3559	<u>800</u>
			129,014

See accompanying independent auditor's report

LAUREL COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED
Year Ended June 30, 2009

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass- Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. DEPARTMENT OF EDUCATION - (Continued)</u>			
Title IV, Safe and Drug Free Schools	84.186A	33-540-4068	\$ 15,928
Title IV, Safe and Drug Free Schools	84.186A	33-540-4069	<u>42,475</u>
			58,403
Tech-Prep Education	84.243	33-540-3639	13,987
	84.243	33-540-3639S	<u>1,921</u>
			15,908
Title V	84.298	33-540-3348	139
Title II, Part D	84.318X	33-540-4258	5,822
Title II, Part D	84.318X	33-540-4259	<u>28,652</u>
			34,474
Reading First	84.357A	33-540-5088C	110,853
Title VI, Rural Education Achievement	84.358B	33-540-3507	6,499
Title VI, Rural Education Achievement	84.358B	33-540-3508	91,903
Title VI, Rural Education Achievement	84.358B	33-540-3509	<u>219,099</u>
			317,501
Title II, Part A Teacher Quality	84.367A	33-540-4018	5,928
Title II, Part A Teacher Quality	84.367A	33-540-4019	<u>658,489</u>
			664,417
Readiness & Emergency Management for Schools	84.184E	33-540-3978	97,136
Perkins - Technical Upgrade Training	84.048	33-540-3569	6,824
Special Education - Preschool, Recovery Act	84.392A	33-540-4239	<u>18,502</u>
Total U.S. Dept. of Education			<u>6,445,127</u>

See accompanying independent auditor's report

LAUREL COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED
Year Ended June 30, 2009

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass- Through Grantor's Number	Expenditures
<u>U.S. DEPARTMENT OF LABOR</u>			
Passed Through State Dept. of Education:			
WIA-In School Regular Youth Program	17.255	33-540-5889A	\$ 45,482
WIA-In School Regular Youth Program	17.255	33-540-5889B	<u>7,018</u>
			52,500
Workforce Investment Act	17.259	33-540-5809B	<u>22,705</u>
Total U.S. Department of Labor			<u>75,205</u>
<u>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</u>			
Passed Through State Dept. of Education:			
Service Learning Grant	94.004	33-540-6757	<u>3,022</u>
Total Corporation for National and Community Service			<u>3,022</u>
Total Expenditures of Federal Awards			<u>\$ 9,722,174</u>

See accompanying independent auditor's report

LAUREL COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2009

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Laurel County School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

LAUREL COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2009

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued - unqualified

Internal control over financial reporting:

- Material weakness(es) identified _____yes ___X___no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____yes ___X___none reported

Noncompliance material to financial statements noted?

_____yes ___X___no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____yes ___X___no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____Yes ___X___none reported

Type of auditor's report issued on compliance for major programs - unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

_____yes ___X___no

Identification of major programs:

CFDA Number(s)

84.010
84.358B
84.367A

Name of Federal Program or Cluster

Title I
Title VI, Rural Ed Achievement
Title II, Teacher Quality

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

___X___yes _____no

LAUREL COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
Year Ended June 30, 2009

Section II - Financial Statement Findings

No matters were reported.

Section III - Federal Award Findings and Questioned Costs

No matters were reported.

LAUREL COUNTY SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended June 30, 2009

Status of Prior Year Findings

There were no prior year audit findings.

CHRISTIAN, STURGEON & ASSOCIATES, PSC

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the Board of Education
Laurel County School District
London, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Laurel County School District as of and for the year ended June 30, 2009, which collectively comprise the Laurel County School District's basic financial statements and have issued our report thereon dated October 26, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract – General Audit Requirements*, *Appendix II of the Independent Auditor's Contract – State Audit Requirements*, and *Appendix III of the Independent Auditor's Contract – Electronic Submission*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Laurel County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether Laurel County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

In addition, the results of our tests disclosed no instances of noncompliance of specific state statutes or regulations identified in *Appendix II of the Independent Auditor's Contract - State Audit Requirements*.

We noted certain matters that we reported to management of Laurel County School District in a separate letter dated October 26, 2009.

This report is intended solely for the information and use of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Laurel County School District, the Kentucky Department of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Christian, Sturgeon & Associates, PSC

London, Kentucky
October 26, 2009

CHRISTIAN, STURGEON & ASSOCIATES, PSC

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Members of the Board of Education
Laurel County School District
London, Kentucky

Compliance

We have audited the compliance of Laurel County School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. Laurel County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Laurel County School District's management. Our responsibility is to express an opinion on Laurel County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract – General Audit Requirements*, *Appendix II of the Independent Auditor's Contract – State Audit Requirements*, and *Appendix III of the Independent Auditor's Contract – Electronic Submission*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Laurel County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Laurel County School District's compliance with those requirements.

In our opinion, Laurel County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of Laurel County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Laurel County School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Laurel County School District's internal control over compliance.



A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Laurel County School District, the Kentucky Department of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Christian, Sturgeon & Associates, PSC

London, Kentucky
October 26, 2009

MANAGEMENT LETTER COMMENTS

CHRISTIAN, STURGEON & ASSOCIATES, PSC

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Members of the Board of Education
Laurel County School District
London, Kentucky

In planning and performing our audit of the financial statements of Laurel County School District as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting and compliance as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting or compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. We previously reported on the District's internal control in our report dated October 26, 2009. This letter does not affect our report dated October 26, 2009 on the financial statements of Laurel County School District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and their implementation is currently being reviewed. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Christian, Sturgeon & Associates, PSC

London, Kentucky
October 26, 2009



LAUREL COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
Year Ended June 30, 2009

School Activity Funds

Dual Signatures

- a. Statement of Condition – At one school (South Laurel High School), ten instances occurred where only one signature appeared on checks requiring dual signatures.
- b. Criteria – An effective internal control system in place would require that checks are issued only after two signatures are obtained.
- c. Cause of Condition – This appears to be an oversight of the bookkeeper.
- d. Effect – There could be improper payments made from school activity funds.
- e. Recommendation – All checks being issued should contain two signatures.
- f. Management's Response – This occurred ten times at one school where the Principal or her designee failed to sign the checks. This occurred when staff had obtained checks from the principal's desk that were awaiting signature. The principal has been instructed to keep checks awaiting signature in a secure place and return the checks to the bookkeeper for distribution. The bookkeeper will confirm that all checks have two signatures as required. The district had this finding last year but it occurred at a different school.

Ticket Sales Reports

- a. Statement of Condition – At one school (South Laurel High School), it was noted that Ticket Sales Reports are not being properly prepared.
- b. Criteria – The Redbook requires that ticket sellers use the Requisition and Report of Ticket Sales for all events where admission is charged.
- c. Cause of Condition – It appears that the personnel preparing the reports are failing to properly document the tickets used and date of the event.
- d. Effect – This condition could result in ticket sales not being recorded or tickets being distributed without payment being received.
- e. Recommendation – The District should provide training on the proper preparation of the Requisition and Report of Ticket Sales to all personnel that will be conducting ticket sales.
- f. Management's Response – This occurred at one school which had not previously had this problem. We have met with the principal and bookkeeper to correct this irregularity and central office personnel will confirm adherence to proper procedures during our in house reviews.

Our procedures for the audited year did include a surprise cash count and general accounting review as recommended. Also, the District continues to have an annual Redbook procedures training conducted by an outside firm.

LAUREL COUNTY SCHOOL DISTRICT
RESOLUTION OF RECOMMENDATIONS OF PRIOR YEAR MANAGEMENT LETTER POINTS
Year Ended June 30, 2009

The prior year management letter contained conditions relating to the following:

SCHOOL ACTIVITY FUNDS

1. Annual Financial Report
2. Timely Deposits
3. Sales Taxes Paid
4. Principal Signature on Paid Invoices
5. Required Booster Club Report
6. Dual Signatures
7. Purchase Order Dated After the Invoice
8. No Signature on Purchase Order
9. No Vendor Signature on Standard Invoice
10. Invoice Was Not Cancelled Properly
11. Incorrect Use of Multiple Receipt Forms

Procedures performed for the year ended June 30, 2009 did not indicate a recurrence of conditions 1, 2, 3, 4, 5, 7, 8, 9, 10 and 11. The District appears to have adequately addressed the recommendations that were made.

For condition 6, this is a repeat condition for the year ended June 30, 2009.

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Members of the Board of Education
Mr. David Young, Superintendent
Laurel County School District
London, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Laurel County School District as of and for the year ended June 30, 2009. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated July 27, 2009. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Laurel County School District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008-2009. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the Laurel County School District's financial statements was:

Management's estimate that an allowance for doubtful accounts is not necessary is based on from whom the receivables are due and an analysis of the collectability of individual accounts. We evaluated the key factors and assumptions used to make this determination and its reasonableness in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 26, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the members of the Board of Education and management of Laurel County School District and is not intended to be and should not be used by anyone other than these specified parties.

Christian, Sturgeon & Associates, PSC

London, Kentucky
October 26, 2009